

Instructions for Schedule CA (540NR)

References to these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and the California Revenue and Taxation Code (R&TC).

What's New

Registered Domestic Partners (RDP)

Effective for taxable years beginning on or after January 1, 2007, RDPs under California law **must file** their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs will have the same legal benefits, protections, and responsibilities as married couples unless otherwise specified.

If you are a domestic partner who has registered with the California Secretary of State, effective for taxable years beginning on or after January 1, 2007, you must file a California nonresident income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status.

If you entered into in a same sex legal union in another state, other than a marriage, and that union has been determined to be substantially equivalent to a California registered domestic partnership, effective for taxable years beginning on or after January 1, 2007, you are required to file a California nonresident income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status. For more information on what states have legal unions that are considered substantially equivalent, go to our Website at www.ftb.ca.gov and search for **RDP**.

For purposes of California income tax, references to a spouse, a husband, or a wife also refer to a California Registered Domestic Partner (RDP), unless otherwise specified. When we use the initials (RDP) they refer to both a California Registered Domestic "Partner" and a California Registered Domestic "Partnership," as applicable. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners.

Conformity

For updates regarding the following federal act, go to our Website at www.ftb.ca.gov and search for **conformity**.

- Small Business and Work Opportunity Tax Act of 2007
- Mortgage Forgiveness Debt Relief Act of 2007

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to our Website at www.ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

The California legislature enacted SB 615 (Stats. 2004.CH.388), which makes California law compatible with the Servicemembers Civil Relief Act (Public Law 108-189). This means that servicemembers domiciled outside of California and their spouses/RDPs may exclude the servicemember's military compensation from gross income when computing the tax rate on nonmilitary income.

Requirements for military servicemembers domiciled in California remain unchanged. Military servicemembers domiciled in California must include their military pay in total income. In addition, they must include their military pay in California source income when stationed in California. However, military pay is not California source income when a servicemember is permanently stationed outside of California.

Amended Returns – If you are an active duty military servicemember domiciled outside California and you included your military compensation in income from all sources, you may file an amended return for tax years with an open statute of limitations. Get FTB Pub. 1032, Tax Information for Military Personnel, and Form 540X, Amended Individual Income Tax Return, for additional information.

Purpose

Use this schedule to determine California taxable income by doing the following:

- Identify the domiciles and also, current and past residency information.
- Enter the amounts of income and deductions reported on your federal income tax return.
- Adjust the income and deductions reported on your federal return for differences in California and federal law.
- Determine the portion of income reported on your federal return that was earned or received while you were a California resident.
- Determine the portion of income reported on your federal return that was earned or received from California sources while you were a nonresident.
- Determine your allowable standard deduction or itemized deductions.

Part-Year Residents – Complete the Part-Year Resident Worksheet on page 10 to determine the amounts to enter on Part II, line 7 through line 22a, column E.

Avoid common mistakes on this schedule.

Column A – Copy the amounts from your federal return. Using the (a) amounts on line 9 and the (b) amounts on line 15, line 16, and line 20, use the line (b) amounts from your federal return. Form 1040, line 37, should equal Long Form 540NR, line 13, federal AGI.

Column B (line 7 - line 21) – Subtract income that is not taxable to a California resident such as California lottery winnings and social security benefits. **Do not use column B to deduct** income that was earned while a nonresident of California or from sources outside of California. There **must** be a difference in state and federal tax law. Generally, if a full-year California resident cannot subtract the income in column B, a nonresident or part-year resident may not subtract the income in column B either.

Column C (line 7 - line 21) – Add income that was not taxed on your federal return but is taxable to a California resident such as foreign income or interest/dividends from non-California municipal bonds.

Column D – Combine the columns (column A - column B + column C). Line 37, column D, should equal Long Form 540NR, line 17. The amounts in this column represent income earned from all sources as if you were a full-year California resident, after applying California and federal law differences.

Column E – Enter all income from all sources while a resident of California and income from California sources while a nonresident. Enter on line 45 the amount from Schedule CA (540NR), line 37.

Specific Line Instructions for Part I Residency Information

Answer all the questions in this part for you and your spouse/RDP. If a question does not apply, enter "N/A" on the line for the answer. For more information get:

- FTB Pub. 1031, Guidelines for Determining Resident Status
- FTB Pub. 1032, Tax Information for Military Personnel

Line 1 – Domicile and military

If you served in the military, your state of domicile is generally the state where you were living when you first entered military service. If you were not in the military, your domicile is the place you consider your permanent home, the place to which you, whenever absent, intend to return.

Line 5 – The number of days I spent in California

The total number of days in California should include all days in California for any purpose including residency, business, and vacation.

Specific Line Instructions for Part II Income Adjustment Schedule

Column A — Federal Amounts

Enter all the amounts shown on your federal return on the corresponding lines in column A.

If married/RDP filing separately under either exception described in the instructions for Long Form 540NR, enter in column A the amounts you would have reported on a separate federal return. Attach a statement to the

return showing how the income and expenses were split between you and your spouse/RDP.

Line 7 through Line 21

Enter on line 7 through line 21 the same amounts you entered on federal Form 1040, line 7 through line 21; Form 1040A, line 7 through line 14b; Form 1040EZ, line 1, line 2, and line 3; or Form 1040NR, line 8 through line 21 for the same types of income.

Line 22a – Total

Combine the amounts on line 7 through line 21. Enter the total on line 22a. This number should be the same as the amount on federal Form 1040, line 22; Form 1040A, line 15; Form 1040EZ, line 4; or Form 1040NR, line 23.

Line 22b – Balance Carried Forward

Enter on line 22b the total from Side 1, line 22a, column A.

Line 23 through Line 35

Enter the same amounts you entered on federal Form 1040, line 23 through line 35; Form 1040A, line 16 through line 19; or Form 1040NR, line 24 through line 33.

Line 31a and Line 31b

Enter on line 31a the same amount entered on federal Form 1040, line 31a. Enter on line 31b the social security number or individual taxpayer identification number (ITIN) and last name of the person to whom you paid alimony.

Line 36

Add line 23 through line 35. This amount should be the same as the amount on federal Form 1040, line 36; Form 1040A, line 20; or Form 1040NR, line 34. However, if you made any of the adjustments described in the instructions for federal Form 1040, line 36, or if you claimed the foreign housing deduction from federal Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion, enter the amount from Form 1040, line 36 on this line.

If you used Form 1040NR and reported an amount on Form 1040NR, line 30 for excluded scholarship and fellowship grants, enter the amount from Form 1040NR, line 34 on this line.

Line 37 – Total

Subtract line 36 from line 22b. This amount should be the same as the amount on Long Form 540NR, line 13; federal Form 1040, line 37; Form 1040A, line 21; Form 1040EZ, line 4; or Form 1040NR, line 35.

Column B and Column C — Subtractions and Additions

Use these columns to enter subtractions and additions to federal amounts in column A that are necessary because of the differences between California and federal law. Enter all amounts on line 7 through line 36 as positive numbers.

Do not deduct income that was earned while a nonresident of California or from sources outside of California. There **must** be a difference in tax law. Generally, if a California resident cannot subtract the income in column B, a nonresident or part-year resident may not subtract income from column B.

If you are a nonresident alien, use column B and column C to adjust federal AGI to include income from all sources, even if you were not required to report it on your federal return. California does not have special rules limiting total AGI from all sources to U.S. source or effectively connected income of nonresident aliens.

You may need one of the following FTB publications to complete column B and column C:

- 1001, Supplemental Guidelines to California Adjustments
- 1005, Pension and Annuity Guidelines
- 1031, Guidelines for Determining Resident Status
- 1032, Tax Information for Military Personnel
- 1100, Taxation of Nonresidents and Individuals Who Change Residency

To get a publication or form go to our Website at www.ftb.ca.gov or see page 58 of your 2007 California 540NR Booklet.

Line 7 – Wages, Salaries, Tips, etc.

Generally, no adjustments are made on this line. If you did not receive any of the following types of income, make no entry on this line in either column B or column C.

Military Pay Adjustment. Compensation for military service of a servicemember domiciled outside of California is exempt from California tax. It is excluded from adjusted gross income from all sources. For more information, get FTB Pub. 1032, Tax Information for Military Personnel.

Active duty military servicemembers domiciled outside of California, may claim an adjustment for active duty military pay.

To claim the adjustment, write “MPA” to the left of column A and enter the amount of your active duty military pay in column B. Exclude this amount from column E. Attach a copy of your W-2, reflecting your military compensation, to your return.

Sick pay received under the Federal Insurance Contributions Act and Railroad Retirement Act. California excludes these items from income. Enter in column B the amount of these benefits included in the amount in column A.

Ride-sharing fringe benefit differences. Under federal law, qualified transportation benefits are excluded from gross income. Under the California Revenue and Taxation Code, there are no monthly limits for the exclusion of these benefits and California’s definitions are more expansive. Enter the amount of ridesharing benefits received and included in federal income on line 7, column B.

Foreign Income. If you excluded income exempted by U.S. tax treaties on your federal Form 1040 (unless specifically exempt for state purposes), enter the excluded amount in column C. If you claimed foreign earned income or housing cost exclusion on your federal Form 1040 (under IRC Section 911), see the instructions for line 21.

Exclusion for compensation from exercising a California Qualified Stock Option (CQSO). To claim this exclusion:

- Your earned income is \$40,000 or less from the corporation granting the CQSO.
- The market value of the options granted to you must be \$100,000 or less.
- The total number of shares must be 1,000 or less.
- The corporation issuing the stock must designate that the stock issued is a California qualified stock option at the time the option is granted.

If you included in federal income an amount qualifying for this exclusion, enter that amount in column B.

Exclusion for Medical Expenses Reimbursement. California allows an exclusion from gross income for employer-provided accident, health insurance, and medical expense reimbursement for registered domestic partners and that partner’s dependents if not previously deducted. Self-employed individuals may also claim a deduction for health insurance costs paid for themselves, their spouse or registered domestic partner, and their dependent(s), including the dependent(s) of their RDP. Enter this amount in column B.

Compensation of merchant seamen, military servicemembers, rail, motor, and aircraft carriers. Exclude the following from gross income: compensation for the performance of duties of certain merchant seamen, rail carriers, motor carriers, aircraft carriers, and military servicemembers.

Line 8 – Taxable Interest Income

If you did not receive any of the kinds of income listed below, make no entry on this line in either column B or column C. Enter in column B, the interest that you received from:

- U.S. saving bonds (except for interest from series EE U.S. savings bonds issued after 1989 that qualified for the Education Savings Bond Program exclusion).
- U.S. Treasury Bills, notes, and bonds.
- Any other bonds or obligations of the United States and its territories.
- Interest from Ottoman Turkish Empire settlement payments.
- Interest income from children between the ages of 14 and 18. (For more information, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments.)
- Interest income from children under the age of 14, included on the parent’s or child’s federal return and reported on the California return by the opposite taxpayer.

Certain mutual funds pay “exempt-interest dividends.” If the mutual fund has at least 50% of its assets invested in tax-exempt U.S. obligations and/or in California or its municipal obligations, that amount of dividend is exempt from California tax. The proportion of dividends tax-exempt will be shown on your annual statement or statement issued with Form 1099-INT.

Enter in column C, the interest you identified as tax-exempt interest on your federal Form 1040 (or Form 1040A), line 8b or Form 1040NR, line 9b; **and** which you received from:

- The federally exempt interest dividends from other states, or their municipal obligations and/or from mutual funds that do not meet the 50% rule above.
- Non-California state bonds.
- Non-California municipal bonds issued by a county, city, town, or other local government unit.
- Obligations of the District of Columbia issued after December 27, 1973.
- Non-California bonds if the interest was passed through to you from S corporations, trusts, partnerships, or Limited Liability Companies (LLCs).
- Interest or other earnings from a Health Savings Account (HSA) are not treated as tax deferred. Interest or earnings in an HSA are taxable in the year earned.
- Interest on any bond or other obligation issued by the Government of American Samoa.
- Interest income from children under the age of 14, included on the parent's or child's federal return and reported on the California return by the opposite taxpayer.

Make no entries in either column B or column C for interest earned on Federal National Mortgage Association (Fannie Mae) Bonds, Government National Mortgage Association (Ginnie Mae) Bonds, and Federal Home Loan Mortgage Corporations (FHLMC) securities, or grants paid to low-income individuals.

Get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, if you received interest income from the following sources:

- Loans made in an enterprise zone (EZ), or the former Los Angeles Revitalization Zone (LARZ).
- Items listed above passed through to you from S corporations, trusts, partnerships, or LLCs.

Line 9 – Ordinary dividends

Generally, no difference exists between the amount of dividends reported in Column A and the amount reported using California law. However, California taxes dividends derived from other states and their municipal obligations.

Get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, if you received dividend income from:

- Noncash patronage dividends from farmers' cooperatives or mutual associations.
- A controlled foreign corporation.
- Distribution of pre-1987 earnings from S corporations.
- Undistributed capital gains for regulated investment company (RIC) shareholders.
- Dividend income from children between the ages of 14 and 18.
- Dividend income from children under the age of 14, included on the parent's or child's federal return and reported on the California return by the opposite taxpayer.

Line 10 – Taxable refunds, credits, or offsets of state and local income taxes

California does not tax the state income tax refund received in 2007. Enter in column B, the amount of state tax refund entered in column A.

Line 11 – Alimony Received

If you are a nonresident alien and received alimony not included in your federal income, enter the alimony on this line in column C. Otherwise, make no entry on this line.

Line 12 – Business Income or (Loss)

Adjustments to federal business income or loss you reported in column A generally are necessary because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis used to figure California depreciation may be different from the amount used for federal purposes. Adjustments are figured on form FTB 3885A, Depreciation and Amortization Adjustments, and are most commonly necessary because of the following:

- **Before January 1, 1987**, California did not allow depreciation under the federal accelerated cost recovery system. Continue to figure California depreciation for those assets in the same manner as prior years.
- **On or after January 1, 1987**, California provides special credits and accelerated write-offs that affect the California basis of qualifying assets. Refer to the bulleted list below.

Use form FTB 3801, Passive Activity Loss Limitations, to figure the total adjustment for line 12 if you have:

- One or more passive activities that produce a loss.
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule C.

Use form FTB 3885A to figure the total adjustment for line 12 if you have:

- Only nonpassive activities which produce either gains or losses (or a combination of gains and losses).
- Passive activities that produce gains.

Get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information about:

Income related to:

- Business, trade, or profession carried on within California that is an integral part of a unitary business carried on both within and outside California.
- Pro-rata share of income received from a controlled foreign corporation by a U.S. shareholder.

Basis adjustments related to:

- Property acquired prior to becoming a California resident;
- Sales or use tax credit for property used in an EZ, Local Agency Military Base Recovery Area (LAMBRA), Targeted Tax Area (TTA), or former LARZ.
- Reduced recovery periods for fruit-bearing grapevines replaced in a California vineyard on or after 1/1/92 as a result of phylloxera infestation; or on or after 1/1/97 as a result of Pierce's disease.
- Expenditures for tertiary injectants.
- Property placed in service on an Indian reservation after 1/1/94 and before 12/31/03.
- Amortization of pollution control facilities.
- Discharge of real property business indebtedness.
- Employer-paid child care program.
- Employer-paid child care plan.
- Vehicles used in an employer-sponsored ridesharing program.
- An enhanced oil recovery system.
- Joint Strike Fighter property costs.
- The cost of making a business accessible to disabled individuals.
- Property for which you received an energy conservation subsidy from a public utility on or after 1/1/95, and before 1/1/97.
- Research and experimental expenditures.

Business expense deductions related to:

- Wages paid in an EZ, LAMBRA, Manufacturing Enhancement Area (MEA), or TTA.
- Certain employer costs for employees who are also enrolled members of Indian tribes.
- Abandonment or tax recoupment fees for open-space easements and timberland preserves.
- Business located in an EZ, LAMBRA, or TTA.
- Research expense.
- Employer wage expense for the Work Opportunity Credit and Welfare-to-Work Credit.
- Pro-rata share of deductions received from a controlled foreign corporation by a U.S. shareholder.
- Interest paid on indebtedness in connection with company-owned life insurance policies.
- Premiums paid on life insurance policies, annuities or endowment contracts issued after 6/8/97, where the owner of the business is directly or indirectly a policy beneficiary.
- Commercial Revitalization Deductions for Renewal Communities.

Line 13 – Capital Gain or (Loss)

Generally, no adjustments are made on this line. California taxes long and short term capital gains as regular income. No special rate for long term capital gains exists. However, the California basis of the assets listed below may be different from the federal basis due to differences between California and federal laws. If there are differences, use Schedule D (540NR), California Capital Gain or Loss Adjustment, to calculate the amount to enter on line 13:

- Gain on the sale of qualified small business stock which qualifies for the gain exclusion under IRC Section 1202.
- Basis amounts resulting from differences between California and federal law in prior years.

- Gain or loss on stock and bond transactions.
- Installment sale gain reported on form FTB 3805E, Installment Sale Income.
- Gain on the sale of personal residence where depreciation was allowable.
- Flow-through gain or loss from partnerships, fiduciaries, S corporations, or LLCs.
- Capital loss carryover from your 2006 California Schedule D (540NR).

Get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information about:

- Disposition of S corporation stock acquired before 1987.
- Gain on the sale or disposition of a qualified assisted housing development to low-income residents or to specified entities maintaining housing for low-income residents.
- Undistributed capital gain for RIC shareholders.
- Gain or loss on the sale of property inherited before 1/1/87.
- Capital loss carrybacks.
- Capital gains distribution for children between the ages of 14 and 18.

Line 14 – Other Gains or (Losses)

Generally, no adjustments are made on this line. However, the California basis of your other assets may differ from your federal basis due to differences between California and federal law. Therefore, you may have to adjust the amount of other gains or losses. Get Schedule D-1, Sales of Business Property, for more information.

Line 15 – Total IRA Distributions

Beginning with tax year 2002, calculate your IRA basis as if you were a California resident for all prior years. Generally, no adjustments are made on this line. However, there may be significant differences in the taxable amount of a distribution (including a distribution from conversion of a traditional IRA to a Roth IRA) depending on when you made your IRA contributions. California did not conform to the \$2,000 or 100% of compensation annual contribution limit permitted under federal law from 1982 through 1986. During these years, California limited the deduction to the lesser of 15% of compensation or \$1,500 and disallowed a deduction altogether to individuals who were active participants in qualified government plans. Any amount an individual contributed in excess of California deduction limits during these years creates a basis in the IRA.

Get FTB Pub. 1005, Pension and Annuity Guidelines, for more information and worksheets for figuring the adjustment to enter on this line, if any.

Coverdell ESA formerly known as Education (ED) IRA – If column A includes a taxable distribution from an ED IRA, you may owe additional tax on that amount. Get form FTB 3805P, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts. Report only the taxable amount of the distribution on line 21f.

Line 16 – Total Pensions and Annuities

Generally, no adjustments are made on this line. However, if you received Tier 2 railroad retirement benefits or partially taxable distributions from a pension plan, you may need to make the adjustments.

If you received a federal Form RRB 1099-R for railroad retirement benefits and included all or part of these benefits in taxable income in column A, enter the taxable benefit amount in column B.

If you began receiving a retirement annuity between 7/1/86 and 1/1/87, and elected to use the three-year rule for California purposes and the annuity rules for federal purposes, enter in column C the amount of the annuity payments you excluded for federal purposes.

You may have to pay an additional tax if you received a taxable distribution from a qualified retirement plan before reaching age 59½ and the distribution was not rolled over into another qualified plan. See Long Form 540NR, line 41 instructions; or form FTB 3805P, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts.

Line 17 – Rental Real Estate, Royalties, Partnerships, S corporations, Trusts, etc.

Adjustments to federal income or loss you reported in column A generally are necessary because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or basis used to figure California depreciation may be different from the recovery period or amount used for federal purposes. For more information, see the instructions for Schedule CA (540NR), line 12.

California law does not conform to federal law for material participation in rental real estate activities. Beginning in 1994, and for federal purposes only, rental real estate activities conducted by persons in real property businesses are not automatically treated as passive activities. Get form FTB 3801, Passive Activity Loss Limitations, for more information.

Use form FTB 3801, Passive Activity Loss Limitations, to figure the total adjustment for line 17 if you have:

- One or more passive activities that produce a loss.
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule E.

Use form FTB 3885A, Depreciation and Amortization Adjustments, to figure the total adjustment for line 17 if you have:

- Only nonpassive activities which produce either gains or losses (or a combination of gains and losses).
- Passive activities that produce gains.

LLCs that are classified as partnerships for California purposes and limited liability partnerships (LLPs) are subject to the same rules as other partnerships. LLCs report distributive items to members on Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc. LLPs report to partners on Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc.

Get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, for more information about accumulation distributions to beneficiaries for which the trust was not required to pay California tax because the beneficiary's interest was contingent.

Line 18 – Farm Income (Loss)

Adjustments to federal income or loss you report in column A generally are necessary because of the difference between California and federal law relating to depreciation methods, special credits, and accelerated write-offs. As a result, the recovery period or the basis you should use to figure California depreciation may be different from the amount used for federal purposes. For more information about the types of income and adjustments that often require adjustments, see the instructions for Schedule CA (540NR), line 12.

Use form FTB 3801, Passive Activity Loss Limitations, to figure the total adjustment for line 18 if you have:

- One or more passive activities that produce a loss.
- One or more passive activities that produce a loss **and** any nonpassive activity reported on federal Schedule F.

Use form FTB 3885A, Depreciation and Amortization Adjustments, to figure the total adjustment for line 18 if you have:

- Only nonpassive activities which produce either gains or losses (or a combination of gains and losses).
- Passive activities that produce gains.

Line 19 – Unemployment Compensation

California excludes unemployment compensation from taxable income. Enter on line 19, column B, the amount of unemployment compensation shown in column A.

Paid Family Leave Insurance (PFL) benefits, also known as, Family Temporary Disability Insurance. Payments received from the PFL Program in 2007, are reported on your Form 1099-G in column B, line 19. For additional information, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments.

Line 20 – U.S. Social Security Benefits

California excludes U.S. social security benefits or equivalent Tier 1 railroad retirement benefits from taxable income. Enter in column B the amount of U.S. social security benefits or equivalent Tier 1 railroad retirement benefits shown in column A.

Line 21 – Other Income

a. California Lottery Winnings

California excludes California lottery winnings from taxable income. Enter in column B the amount of California lottery winnings included in the federal amount on line 21 in column A.

Make no adjustment for lottery winnings from other states. They are taxable by California.

California and federal laws allow gambling losses only to the extent you report gambling income. If you reduced gambling income for California lottery income, you may need to reduce the losses included in the federal itemized deductions on line 38. Enter these losses on line 41 as a negative number.

b. Disaster Loss Carryover from form FTB 3805V, Part III, line 6

If you have a California disaster loss carryover from your 2006 form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations – Individuals, Estates, and Trusts, enter that amount as a positive number in column B.

c. Federal NOL from Form 1040, line 21

If the amount on line 21 in column A includes a federal NOL, enter the amount of the federal NOL as a positive number in column C. Get form FTB 3805V to figure the allowable California NOL.

d. NOL Carryover from form FTB 3805V, Part III, line 5

The allowable NOL carryover under California law is different from the allowable NOL carryover under federal law. Use form FTB 3805V to figure the allowable California NOL and enter it as a positive number in column B.

e. NOL from FTB 3805D, FTB 3805Z, FTB 3806, FTB 3807, or FTB 3809

Enter in column B the total NOL figured on the following forms.

- FTB 3805D, Net Operating Loss (NOL) Computation and Limitation – Pierce's Disease.
- FTB 3805Z, Enterprise Zone Deduction and Credit Summary, line 5b.
- FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary, line 3b.
- FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary, line 5b.
- FTB 3809, Targeted Tax Area Deduction and Credit Summary, line 4b.

f. Other (describe)

Reward from a crime hotline. Enter in column B the amount of a reward authorized by a government agency received from a crime hotline established by a government agency or nonprofit organization and that is included in the amount on line 21 in column A.

You may not make this adjustment if you are an employee of the hotline or someone who sponsors rewards for the hotline.

Federal foreign income or housing exclusion. Enter in column C the amount deducted from federal income on Form 1040, line 21.

Beverage container recycling income. Enter in column B the amount of recycling income included in the amount on line 21, column A.

Rebates or vouchers from a local water agency, energy agency, or energy supplier. California law allows an income exclusion for rebates or vouchers from a local water agency, energy agency, or energy supplier for the purchase and installation of water conservation appliances and devices. Enter in column B the amount of this type of income included in the amount on line 21 in column A.

Original issue discount (OID) for debt instruments issued in 1985 and 1986. In the year of sale or other disposition, you must recognize the difference between the amount reported on your federal return and the amount reported for California purposes.

Issuers: Enter the difference between the federal deductible amount and the California deductible amount on line 21f in column B.

Holders: Enter the difference between the amount included in federal gross income and the amount included for California purposes on line 21f in column C.

Foreign income of nonresident aliens. Adjust federal income to reflect worldwide income computed under California law. Enter losses from foreign sources in column B. Enter foreign source income in column C.

Cost-share payments received by forest landowners. Enter in column B the cost-share payments received from the Department of Forestry and Fire Protection under the California Forest Improvement Act of 1978 or from the United States Department of Agriculture, Forest Service, under the Forest Stewardship Program and the Stewardship Incentives Program, pursuant to the Cooperative Forestry Assistance Act.

Compensation for False Imprisonment. California excludes compensation for false imprisonment from income. Enter the amount of compensation on line 21f, column B.

Grants paid to low-income individuals. California excludes grants paid to low-income individuals to construct or retrofit buildings to make them more energy efficient. Federal has no similar exclusion. Enter on line 21f, column B the amount of this type of income.

Health Savings Account (HSA) Distributions for unqualified medical expense. Distributions from an HSA not used for qualified medical expenses and included in federal income, are not taxable for California purposes. Enter the distribution not used for qualified medical expenses on line 21f, column A and column B.

Coverdell (ESA) Distributions. If you received a distribution from a Coverdell ESA, report only the taxable amount of the distribution on line 21f.

California National Guard Surviving Spouse & Children Relief Act of 2004. Death benefits up to \$10,000 received from the State of California by a surviving spouse/RDP or member-designated beneficiary of certain military personnel killed in the performance of duty is excluded from gross income. Military personnel include the California National Guard, State Military Reserve, or the Naval Militia. If you reported a death benefit on line 21, column A, enter the death benefit amount in column B.

Ottoman Turkish Empire Settlement Payments. If you received settlement payments as a person persecuted by the regime that was in control of the Ottoman Turkish Empire from 1915 until 1923 your gross income does not include those excludable settlement payments, or interest, received by you, your heirs, or your estate for payments received on or after January 1, 2005. If you reported settlement payments on line 21, column A, enter the amount of settlement payments in column B.

Mortgage relief upon sale or other disposition of principal residence. For taxable years 2007 through 2009, federal law allows an exclusion of income from discharge of indebtedness from the disposition of your principal residence. If you were personally liable for a mortgage and you were relieved of liability for the mortgage indebtedness by disposition of the property then you may have realized a gain. To the extent the amount discharged exceeded the fair market value at the time of disposition, the difference is income from discharge of indebtedness. See federal Publication 544, Sales and Other Disposition of Assets, for more information. If you excluded income from the discharge of indebtedness on your federal return enter the amount in column C.

Hokie Spirit Memorial Fund exclusion. Enter in column C the amount excluded from federal income. For more information, get FTB Pub. 1001.

Line 22a – Total

Add line 7 through line 21f in column B and column C. Enter the totals on line 22a.

Line 22b – Balance Carried Forward

Enter the totals from Side 1, line 22a, column B and column C.

Line 23 through Line 35

California law is the same as federal with the exception of the following:

- Line 23 (Educator expenses) – Enter the amount from column A, line 23 in column B, line 23.
- Line 24 (Certain business expenses of reservists, performing artists, and fee-basis government officials) – If claiming a depreciation deduction as an unreimbursed employee business expense on federal Form 2106, you may have an adjustment in column B or column C.
If you filed a federal Form 2106, Employee Business Expense, or Form 2106-EZ, Unreimbursed Employee Business Expense, you may have an adjustment in column C.
- Line 25 (Health Savings Account (HSA) Deduction) – Federal law allows the taxpayer a deduction for contributions to an HSA account. California does not conform to this provision. Transfer the amount from column A, line 25, to column B, line 25.
- Line 29 (Self-Employed Health Insurance Deduction) – Most people do not have any entry in column B or column C.

Enter on line 29, column C, the amount paid for health insurance coverage (established under your business) for your registered domestic partner and their dependents. Your total California deduction cannot exceed the limitations explained in the federal instructions. Do not include health insurance costs for any month you were eligible to participate in any subsidized health plan maintained by you or your registered domestic partner's employer.

Enter on line 29, column B, the amount of health insurance cost included in column A, line 29, for any month you were eligible to participate in any subsidized health plan maintained by your registered domestic partner's employer.

- Line 31a (Alimony Paid) – Enter the SSN or ITIN and last name of the person to whom you paid alimony. If you are a nonresident alien and you did not deduct alimony on your federal return, enter the amount you paid on this line in column C.
- Line 32 (IRA deduction) – If you are an active duty military servicemember domiciled outside of California, you may have an adjustment. See line 36 instructions.

California does not conform to the federal increase to the indexing of AGI requirements for IRAs. The phase-out for California remains at:

- Single or Head of Household \$50,000 - \$60,000
- Married/RDP filing joint or Qualifying widow(er) . . \$80,000 - \$100,000
- Individual not active, spouse participant \$150,000 - \$160,000

Federal amounts have increased to:

- Single or Head of Household \$52,000 - \$62,000
- Married filing joint/Qualifying widow(er) \$83,000 - \$103,000
- Individual not active, spouse participant \$156,000 - \$166,000

Compute your federal IRA deduction following the federal instructions using the federal IRA worksheet. Compute your California IRA deduction using the federal IRA worksheet using California phase-out amounts instead of federal amounts. Enter as an adjustment in column B, the difference between the amount determined for the federal IRA deduction and the California IRA deduction.

- Line 33 (Student Loan Interest Deduction) – California conforms to federal law regarding student loan interest deduction except for non-California domiciled military taxpayers. Military taxpayers use the Student Loan Interest Deduction Worksheet below to compute the amount to enter on line 33. See FTB Pub. 1032, Tax Information for Military Personnel, for more information.

Student Loan Interest Deduction Worksheet

- 1 Enter the total amount from Schedule CA (540NR), line 33, column A. If the amount on line 1 is zero, STOP. Enter zero on Schedule CA (540NR), column B. You are not allowed a deduction for California **1** _____
- 2 Enter the total interest you paid in 2007 on qualified student loans but not more than \$2,500 here . . **2** _____
- 3 From Form 1040, add line 33 (student loan interest deduction) to line 37 (AGI). Enter the result here **3** _____
- 4 Enter the total military income included in federal adjusted gross income (see FTB Pub. 1032) **4** _____
- 5 Subtract line 4 from line 3 **5** _____
- 6 Enter the amount shown below for your filing status.
 - Single, head of household, or qualifying widow(er) – \$55,000
 - Married/RDP filing jointly – \$110,000 } **6** _____
- 7 Is the amount on line 5 more than the amount on line 6?
 - ☐ **No.** Skip lines 7 and 8, enter -0- on line 9, and go to line 10.
 - ☐ **Yes.** Subtract line 6 from line 5 **7** _____
- 8 Divide line 7 by \$15,000 (\$30,000 if married/RDP filing jointly). Enter the result as a decimal (rounded to at least three places). If the result is 1.000 or more, enter 1.000 **8** _____
- 9 Multiply line 2 by line 8 **9** _____

(continued in next column)

- 10 Student loan interest deduction.** Subtract line 9 from line 2. Enter the result here and on, Schedule CA (540NR), line 33, column D **10** _____
- 11 Student loan interest adjustment.** Enter the result here. If line 1 is less than line 10, enter the difference on Schedule CA (540NR), column C **11** _____

- Line 34 (Tuition and fees deduction) - Enter the amount from column A, line 34 in column B, line 34.
- Line 35 (Domestic production activities deduction) – California does not conform to the federal law regarding the domestic production activities deduction. If you made an adjustment on your federal return for domestic production activities, enter that amount in column B.

Line 36 – Add line 23 through line 31a and line 32 through line 35 in column B and column C. Enter the totals on this line in the appropriate columns.

If you claimed the foreign housing deduction, include that amount in the total you enter in column B, line 36. Enter the amount on "Form 2555" or "Form 2555-EZ" on the dotted line next to line 36.

If you are active duty military and not domiciled in California and your IRA deduction was limited because of a federal AGI limitation, recalculate your deduction excluding your active duty military pay. If the recalculated amount is larger than the amount on line 32, column A, enter the difference between the two amounts in Column C, line 36. Enter the amount and "MPA Adjustment" on the dotted line next to line 36.

Line 37 – Total

Subtract line 36 from line 22b in column B and column C. Enter the totals on this line in the appropriate column. These amounts should be the same as Long Form 540NR, line 14 and line 16, respectively.

In some cases the total on line 37 in column B or column C will be a negative number. Please read the caution note when you get to line 37, column E.

Column D — Total Amounts Using California Law

Use this column to show the amount remaining after adjustments (subtractions or additions).

For each line, 7 through 37:

1. Subtract the amounts in column B from the amounts in column A.
2. Add the amounts in column C to the result of the calculation made in 1 above.
3. Enter the total in column D.

Line 21 – Other Income

If you made any adjustments on line 21 in column B or column C:

- Step 1 Add the adjustments in column B, lines a, b, d, e, and f.
- Step 2 Subtract that total from line 21, column A.
- Step 3 Add the adjustments in column C, lines c and f.
- Step 4 Add that total to the result of Step 2; then continue as instructed above for all other lines.

The total on line 37, column D should be the same as the amount on Long Form 540NR, line 17.

Column E — California Amounts

Column E is used to show how much of the amount of income reported on Schedule CA (540NR), column D is taxable by California. The taxable amount depends on your residency status.

- **Full-year California resident:** A resident is taxed on all income from all sources, including income from sources outside California. Follow the "California Resident Amounts" instructions for each line below. Full-year residents use Long Form 540NR if filing jointly with a spouse/RDP who is a nonresident or a part-year resident.
- **Full-year nonresident:** A nonresident is only taxed on income derived from California sources. Follow the "California Nonresident Amounts" instructions for each line below.
- **Part-year resident:** A part-year resident is taxed on all income from all sources while a resident and only on income derived from California sources while a nonresident. Follow the instructions as stated in the Part-Year Resident Worksheet instructions on page 10.

Refer to instructions for each line below to be sure you are including the correct amounts.

Line 7 – Wages, Salaries, Tips, Etc.

California Resident Amounts – Enter the wages, salaries, tips, or other compensation that you received while a California resident. Active duty military personnel, who are domiciled in California and stationed in California, report their military income here (get FTB Pub. 1032, Tax Information for Military Personnel, for additional information).

California Nonresident Amounts – If you worked in California while a nonresident, enter the wages, salaries, tips, or other compensation received for those California services.

Line 8 – Taxable Interest Income

California Resident Amounts – Enter the interest income received while a California resident.

California Nonresident Amounts – Enter the interest income received while a nonresident from an account or security that was used in a trade or business or was pledged as security for a loan, the proceeds of which were used in a trade or business located in California.

Line 9 – Ordinary Dividends

California Resident Amounts – Enter the ordinary dividends received while a California resident.

California Nonresident Amounts – Enter the ordinary dividends received while a nonresident from an account or security that was used in a trade or business or was pledged as security for a loan, the proceeds of which were used in a trade or business located in California.

Line 11 – Alimony Received

California Resident Amounts – Enter the alimony received while a California resident.

California Nonresident Amounts – Alimony received by a nonresident is not taxable.

Line 12 – Business Income or (Loss)

California Resident Amounts – Enter the total profits or losses (including losses allowed from passive activities) from all businesses conducted while a California resident.

California Nonresident Amounts – Enter the total amount of profits or losses (including losses allowed from passive activities) from all businesses conducted in California while a nonresident of California.

If, as a nonresident, you derived income from a business, trade, or profession conducted partly within California and partly outside California, only income from the part conducted within California is considered California source income that you must report in column E. If there is any business relationship between the parts within and outside California (flow of goods, etc.), apportion the gross income or loss from the entire business. To determine the portion of income or loss from businesses engaged in multistate activities that you must report, use the apportionment formula described in Schedule R, Apportionment and Allocation of Income.

Line 13 – Capital Gain or (Loss)

California Resident Amounts – Enter capital gains and losses from all sources while a California resident.

California Nonresident Amounts – Enter capital gains and losses from sources within California while a nonresident. Complete Schedule D (540NR) Worksheet for Nonresidents and Part-Year Residents, to compute this amount.

Part-Year Resident Amounts – Complete Schedule D (540NR) Worksheet for Nonresidents and Part-Year Residents on page 10. Enter the amount from line 5, column E of that worksheet on the Part-Year Resident Worksheet, line 13, column C.

Line 14 – Other gains or (losses)

California Resident Amounts – Enter gains and losses (including losses allowed from passive activities) from all sources while a resident.

California Nonresident Amounts – Enter gains and losses from sources within California while a nonresident.

Line 15 – Total IRA Distributions (Taxable Amount)

California Resident Amounts – Enter the taxable portion of the IRA distributions received while a California resident. Include regular distributions, premature distributions, and any other money or property received from your IRA account or annuity.

For more information on traditional, Coverdell ESA, and Roth IRAs, get FTB Pub. 1005, Pension and Annuity Guidelines.

If this amount is a premature distribution and you owed the early distribution tax on your federal return, you generally owe this tax to California. Get form FTB 3805P, Additional Taxes on Qualified Plans (including IRAs) and other Tax-Favored Accounts, to figure any additional tax due on this amount.

California Nonresident Amounts – IRA distributions received by a nonresident are not taxable.

Line 16 – Total Pensions and Annuities (Taxable Amount)

California Resident Amounts – Enter the portion of taxable pension and annuity income received while a resident of California.

If this amount is a premature distribution and you owed the early distribution tax on your federal return, you generally owe this tax to California. Get form FTB 3805P, Additional Taxes on Qualified Plans (including IRAs) and other Tax-Favored Accounts, to figure any additional tax due on this amount.

California Nonresident Amounts – Qualified retirement distributions received by a nonresident are not taxable.

For more information, get FTB Pub. 1005, Pension and Annuity Guidelines.

Line 17 – Rental Real Estate, Royalties, Partnerships, S Corporations, Estates, Trusts, Etc.

Enter your 2007 profit or loss (including losses allowed from passive activities) from all rents, royalties, partnerships, S corporations, LLCs, estates, and trusts that accrued while a California resident **and** profit or loss related to property or business located in California while a nonresident of California.

Your Schedule K-1 (100S, 541, 565, or 568) will indicate the amount of partnership, S corporation, estate, trust, or LLC profit or loss derived from California sources.

Part-year residents allocate income between the period of residency and the period of non-residency in a manner that reflects the actual date of realization of partnership, S corporation, and certain trust income. In the absence of information that reflects the actual date of realization, the taxpayer allocates an annual amount on a proportional basis between the two periods, using a daily pro-rata methodology. Get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency.

Line 18 – Farm Income or (Loss)

California Resident Amounts – Enter profit or loss (including losses allowed from passive activities) from all farming activity while a California resident.

California Nonresident Amounts – Enter profit or loss (including losses allowed from passive activities) for farming activity conducted in California while a nonresident of California.

Line 21 – Other Income

Identify the type of income reported in the space provided. If there is more than one item to report on line 21f, attach a statement that lists each item and enter the total of all individual items in column E.

Line 22a – Total

Add line 7 through line 21 in column E. Enter the result on this line.

Line 22b – Balance Carried Forward

Enter the total from Side 1, line 22a, column E on this line.

Line 28 and Line 32 – IRA, Keogh, SEP, and SIMPLE Deduction

The amount of the California deduction for IRA, Keogh, SEP, and SIMPLE contributions is the same as the federal deduction. However, the California deduction may be limited by California compensation or by California self-employment income.

Example: Susan moved into California on December 1. She made contributions to her IRA and claimed a deduction of \$2,000 on her federal return. Her California wages were \$500. Her allowable deduction is the lesser of:

- The federal deduction of \$2,000.
- The California compensation of \$500.

Therefore, she enters \$500 on line 28, column E. She will make no entry in column B or column C.

Keogh, SEP, and Simple deductions are limited to a percentage of the federal deduction.

$$\frac{\text{Self-employment income reported in column E}}{\text{Total self-employment income reported in column D}} = \text{California ratio}$$

Multiply federal deductions by the California ratio described above and enter the result on line 28, column E.

Get FTB Pub. 1005 for more information.

Line 26 – Moving Expenses

California law and federal law are the same for moving expenses. If you moved:

- Into California in connection with your new job, enter the amount from column A, line 26, in column E, line 26.
- Out of California in connection with your new job, enter -0- on line 26.

Exception: If you moved out of California in connection with your new job and received compensation from that job attributable to a California source, your moving expense adjustment will be limited by the ratio of California source compensation from the new job to total compensation from the new job.

Line 27 – One-half of Self-Employment Tax

If you claimed a deduction in column A for self-employment tax paid, your California deduction is limited to a percentage of the federal deduction. That percentage is the ratio of:

$$\frac{\text{Self-employment income reported in column A from all sources while a CA resident}}{\text{Self-employment income reported in column A from CA sources while a nonresident} + \text{Self-employment income reported in column A from all sources while a CA resident}} = \text{California ratio}$$

Multiply your federal deduction by the California ratio described above and enter the result on line 27, column E.

Line 29 – Self-Employed Health Insurance Deduction

If you claimed a deduction in column A for payments you made to a health insurance plan while you were self-employed, your California deduction is limited to a percentage of the federal deduction. That percentage is the ratio of:

$$\frac{\text{Total self-employment income reported in column E}}{\text{Total self-employment income reported in column D}} = \text{California ratio}$$

Multiply your federal deduction on line 29, by the California ratio described above and enter the result on line 29, column E.

Line 30 – Penalty on Early Withdrawal of Savings

Enter the interest penalties charged while a California resident.

Line 31a – Alimony Paid

If you claimed a deduction in column A for alimony payments, first compute your California ratio:

$$\frac{\text{California AGI (line 37, column E) (without the alimony deduction)}}{\text{Total AGI (line 37, column D) (without the alimony deduction)}} = \text{California ratio}$$

FULL-YEAR NONRESIDENT:

Multiply the federal deduction (line 31a, column A) by the California ratio (see above) and enter the amount in column E, line 31a.

PART-YEAR RESIDENT:

Multiply the alimony paid while a nonresident by the California ratio (see above) to determine the nonresident portion. Add this amount to the alimony paid while a resident. Enter the total in column E, line 31a.

Line 36

Add line 23 through line 35 in column E. Enter the result on this line.

Line 37 – Total

Subtract line 36 from line 22b in column E. This is your California adjusted gross income (AGI). Enter the result on this line. Also enter this amount on line 45.

Also, transfer the amount from:

- Line 37, column B to Long Form 540NR, Side 1, line 14.
If column B is a negative number, transfer the amount as a positive number to line 16.
- Line 37, column C to Long Form 540NR, Side 1, line 16.
If column C is a negative number, transfer the amount as a positive number to line 14.
- Line 37, column E to Long Form 540NR, Side 1, line 21.
If you plan to itemize deductions, go to Part III.

Specific Line Instructions for Part III Adjustments to Federal Itemized Deductions

Line 38 – Federal Itemized Deductions

Enter the total amount of itemized deductions from your federal Schedule A (Form 1040), lines 4, 9, 15, 19, 20, 27, and 28 or Schedule A (Form 1040NR), lines 3, 7, 8, 15, and 16.

Nonresident military servicemembers domiciled outside of California exclude military pay from federal AGI when calculating threshold limits for the following federal Schedule A, Itemized Deductions, items: medical and dental expenses, gifts to charity, casualty and theft losses, and job expenses and most other miscellaneous deductions. Recalculate these amounts using the modified federal AGI amount. Subtract military pay from federal AGI, and then recalculate itemized deductions using the new threshold limits. Enter the recalculated Schedule A, total itemized deductions on Schedule CA (540NR), line 38.

Important: If you did not itemize deductions on your federal tax return but will itemize deductions on your California return, first complete federal Schedule A. Then complete Schedule CA (540NR), Part III, line 38 through line 44. Attach a copy of federal Schedule A to your Long Form 540NR.

Line 39 – State, Local, and Foreign Income Taxes; General Sales Tax

Add the following amounts from federal Schedule A (Form 1040) and enter on line 39:

- Line 5, state and local income tax (including limited partnership tax and income or franchise tax paid by corporations), State Disability Insurance (SDI), and Voluntary Plan Disability Insurance (VPDI).
- Line 8, foreign income taxes.

If you are deducting either local general sales and use taxes or state and local income taxes as an itemized deduction on federal Schedule A, line 5, enter the amount on Schedule CA (540NR), line 39.

For tax years beginning in 2004 and 2005, the American Jobs Creation Act of 2004 allows taxpayers to elect to claim either local general sales and use taxes or state and local income taxes as an itemized deduction. If you are deducting either of these on line 5 of federal Schedule A, enter the amount on line 39.

Line 41 – Other Adjustments

Adoption-related Expenses – If you deducted adoption-related expenses on your federal Schedule A and are claiming the adoption cost credit on your Long Form 540NR, enter the amount of the adoption cost credit claimed as a negative number on line 41.

Mortgage Interest Credit – If you reduced your federal mortgage interest deduction by the amount of your mortgage interest credit (from federal Form 8396, Mortgage Interest Credit), increase your California itemized

deductions by the same amount. Enter the amount of your federal mortgage interest credit as a positive number on line 41.

Nontaxable Income Expenses – If, on federal Schedule A, you claim expenses related to producing income taxed under federal law but not taxed by California, enter the amount as a negative number on line 41.

You may claim expenses related to producing income taxed by California law but not taxed under federal law by entering the amount as a positive number on line 41.

Employee Business Expense – If you completed federal Form 2106, Employee Business Expense, or Form 2106-EZ, Unreimbursed Employee Business Expense, prepare a second set of forms reflecting your employee business expense using California amounts (i.e., following California law).

Generally, California law conforms with federal law and no adjustment is needed. However, differences occur when:

- Assets (requiring depreciation) were placed in service before 1/1/87. Figure the depreciation based on California law.
- Federal employees were on temporary duty status. California does not conform to the federal provision that expanded temporary duties to include prosecutive duties, in addition to investigative duties.

Therefore, travel expenses paid or incurred in connection with temporary duty status (exceeding one year), involving the prosecution (or support of the prosecution) of a federal crime, should not be included in the California amount.

Compare line 10 on the federal form and the form completed using California amounts. If the federal amount is larger, enter the difference as a negative number on line 41 (bracket the number). If the California amount is larger, enter the difference as a positive number on line 41.

Investment Interest Expense – Your California deduction for investment interest expense may be different from your federal deduction. Use form FTB 3526, Investment Interest Expense Deduction, to figure the amount to enter on line 41.

Interest Expense Deduction – Your California interest expense deduction may be different from your federal deduction. A deduction is allowed for interest paid on any loan or financed indebtedness from a utility company to purchase energy efficient equipment and products for California residences. Enter as a positive number on line 41.

Gambling Losses – California Lottery losses are not deductible for California. Enter the amount of California Lottery losses shown on federal Schedule A as a negative number on line 41.

Federal Estate Tax – Federal estate tax paid on income in respect of a decedent is not deductible for California. Enter the amount of federal estate tax shown on federal Schedule A as a negative number on line 41.

Generation Skipping Transfer Tax – Tax paid on generation skipping transfers is not deductible under California law. Enter the amount of expenses shown on federal Schedule A as a negative number on line 41.

State Legislator's Travel Expenses – Under California law, deductible travel expenses for state legislators include only those incurred while away from their places of residence overnight. Figure the difference between the amount allowed using federal law and the amount allowed using California law. Enter the difference as a negative number on line 41.

Charitable Qualified Contributions – Your California deduction may be different from your federal deduction. California limits the amount of your deduction to 50% of your federal adjusted gross income.

Charitable Contribution Carryover Deduction – If deducting a prior year charitable contribution carryover, and the California carryover is larger than the federal carryover, enter the additional amount as a positive number on line 41.

Health Savings Account (HSA) Distributions – If you received a tax-free HSA distribution for qualified medical expenses, enter the qualified expenses paid that exceed 7.5% of federal AGI as an adjustment to itemized deductions. To determine the amount of the itemized deduction adjustment:

- Calculate the medical expense deduction for California.
- Calculate the medical expense deduction for federal.
- Subtract the federal amount from the California amount. Enter the amount on line 41, as a positive amount.

Carryover Deduction Appreciated Stock Contributed to a Private Foundation prior to 1/1/02 – If deducting a charitable contribution carryover of appreciated stock donated to a private operating foundation made prior to 1/1/02, and the fair market value allowed for federal purposes is larger than the basis allowed for California purposes, enter the difference as a negative number on line 41.

Interest on loans from utility companies – Taxpayers are allowed a tax deduction for interest paid or incurred on a public utility company financed loan that is used to purchase and install energy efficient equipment or products, including zone-heating products for a qualified residence **located in California**. Federal law has no equivalent deduction. Enter the amount as a positive number on line 41.

Claim of Right – If you had to repay an amount that you included in your income in an earlier year, because at the time you thought you had an unrestricted right to it, you may be able to deduct the amount repaid from your income for the year in which you repaid it. Or, if the amount you repaid is more than \$3,000, you may take a credit against your tax for the year in which you repaid it, whichever results in the least tax.

If the amount repaid was not taxed by California, then no deduction or credit is allowed.

If you claimed a credit for the repayment on your federal return and are deducting the repayment for California, enter the allowable deduction as a positive amount on Schedule CA (540NR), line 41. Deductions of \$3,000 or less are subject to the 2% federal AGI limit.

If you deducted the repayment on your federal return and are taking a credit for California, enter the amount of the federal deduction as a negative amount on Schedule CA (540NR), line 41. To help you determine whether to take a credit or deduction, see the Repayment section of federal Publication 525, Taxable and Nontaxable Income. Remember to use the California tax rate in your computations. If you choose to take the credit instead of the deduction for California, add the credit amount on line 51, the total payment line, of the Long Form 540NR. To the left of the total, write "IRC 1341" and the amount of the credit.

Line 43 – California Itemized Deductions

Is the amount on Long Form 540NR, line 13 more than the amount shown below for your filing status?

Single or married/RDP filing separately	\$155,416
Married/RDP filing jointly or qualifying widow(er)	\$310,837
Head of household	\$233,129

NO Transfer the amount from line 42 to line 43. Do not complete the worksheet on the following page.

YES Complete the Itemized Deductions Worksheet on the following page.

Note:

- If you are married/RDP and file a separate return, you and your spouse/RDP must either both itemize your deductions or both take the standard deduction.
- Also, if someone else can claim you as a dependent, claim the greater of the standard deduction or your itemized deductions. See the "California Standard Deduction Worksheet for Dependents" on page 16 of your 2007 California 540NR Booklet to figure your standard deduction.
- Military pay of a servicemember domiciled outside of California cannot be used to reduce the amount of this deduction. Modify your federal adjusted gross income used to compute this limitation by subtracting your military pay from federal adjusted gross income.

Specific Line Instructions for Part IV California Taxable Income

Line 47 – Deduction Percentage

Divide line 37, column E by line 37, column D. Carry the decimal to four places. This number may not be greater than 1.0000. If the result is greater than 1.0000, enter 1.0000.

Line 49 – California Taxable Income

Subtract line 48 from line 45. If less than zero, enter -0-. Enter this amount on Long Form 540NR, line 22.

Itemized Deductions Worksheet

- 1 Enter the amount from Schedule CA (540NR), line 42. **1** _____
- 2 Using California amounts, add the amounts on federal Schedule A (Form 1040), line 4, line 14, and line 20 plus any gambling losses included on line 28 (or on Schedule A (Form 1040NR), line 8 plus any investment interest expense included on line 11 and any gambling losses on line 16). **2** _____
- 3 Subtract line 2 from line 1. If the result is -0-, **stop**. Enter the amount from line 1 above on Schedule CA (540NR), line 43 **3** _____
- 4 Multiply line 3 by 80% (.80) **4** _____
- 5 Enter the amount from Long Form 540NR, line 13 **5** _____
- 6 Enter the amount from line 43 on the previous page for your filing status **6** _____
- 7 Subtract line 6 from line 5.
If the result is -0- or less **stop**. Enter the amount from line 1 above on Schedule CA (540NR), line 43. **7** _____
- 8 Multiply line 7 by 6% (.06) **8** _____
- 9 Compare the amounts on line 4 and line 8. Enter the smaller amount here. **9** _____
- 10 Total itemized deductions. Subtract line 9 from line 1. Enter the result here and on Schedule CA (540NR), line 43 **10** _____

Part-Year Resident Worksheet

Important: Part-year residents use this worksheet to determine the amounts to enter on Schedule CA (540NR), column E, line 7 through line 22a.

	A	B	C
	California Resident Amounts	California Nonresident Amounts	Total Combine column A and column B
	Amounts reported on Schedule CA (540NR) column D earned or received while you were a CA resident	Amounts reported on Schedule CA (540NR) column D earned or received from CA sources while you were a nonresident	Transfer amounts to Schedule CA (540NR), column E
Income			
7 Wages, salaries, tips, etc. 7			
8 Taxable interest income. 8			
9 (a) Ordinary dividends. See instructions 9(a)			
10 Taxable refunds, credits, or offsets of state and local income taxes 10			
11 Alimony received. 11			
12 Business income or (loss). 12			
13 (a) Capital gain or (loss). See instructions. 13(a)			
14 Other gains or (losses) 14			
15 (b) Total IRA distributions. See instructions. 15(b)			
16 (b) Total pensions and annuities. See instructions. 16(b)			
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. See instructions. 17			
18 Farm income or (loss). 18			
19 Unemployment compensation. 19			
20 Social security benefits 20			
21 Other income. Identify _____ 21			
22 a Totals: Combine line 7 through line 21 in column C. Transfer the amounts from column C, line 7 through line 22a, to Schedule CA (540NR), column E, line 7 through line 22a. 22a			

Part-Year Resident Worksheet – Part-year residents use this worksheet to determine the amounts to enter on Schedule CA (540NR), column E, line 7 through line 22a.

Column A: For the part of the year you were a resident, follow the “California Resident Amounts” instructions. Enter the result in column A of the worksheet.

Column B: For the part of the year you were a nonresident, follow the “California Nonresident Amounts” instructions. Enter the result in column B of the worksheet.

Column C: For each line, combine column A and column B of the worksheet. Transfer the amounts in column C of the worksheet to Schedule CA (540NR), column E, line 7 through line 22a.

Important: If completing line 13 or line 17, see the part-year resident instructions for those lines.